Is the US blowing the Shale Revolution?

MICHAEL WISE | ENERGY INSIGHTS | JUN 17, 2014

I recently wrote, Maine and Ohio: Natural gas causing divergent economic paths, addressing how the state of Maine is concerned that it's lack of access to affordable natural gas is contributing to an economic crisis. Goldman Sachs puts an asterisk on this point in a new report titled "Unlocking the Economic Potential of North America's Energy Resources." A Business Insider article reviews the report and pulls no punches in asking whether the US "is blowing the shale revolution."

Goldman Sachs notes that "the window of opportunity for North America to benefit fully from its potential is limited. While North America can easily point to the economic advantages generated by shale, these advantages were based on legacy infrastructure rather than resource availability. Many other countries have similar resources as North America, particularly China. They only lack the infrastructure needed to unlock these resources. This means that it is only a question of time before other nations catch up with North America. Time is of the essence to act now."

The Goldman Sachs report jumps into the debate over the exporting of liquefied natural gas (LNG). After describing the shortfall in downstream investment, it is noted that:

"The United States seems more on track to export shale, as the United States has lagged other countries in generating the demand — and the high-value manufacturing jobs that come along with this demand for shale gas. Several factors underlie disappointing demand-side investment. These include a lack of confidence in the future economics of these projects, a lengthy and uncertain permitting process, regulations that cannot keep pace with today's technologies and substantial uncertainty around the long-term viability of shale gas. All of these problems share a common solution: stable and well-defined environmental, energy and transportation policies. At the same time, long-term investment decisions — which are for our long-term economic benefit — require a higher degree of clarity on our national LNG and oil export posture. This would reduce uncertainty around future pricing and availability of cheap energy."

And here is the point about Maine and New England:

"The Marcellus Shale is a prime example of an opportunity that could be squandered. The Marcellus has been the greatest growth contributor to US natural gas supply, yet this winter nearby New England had severe supply shortages from pipeline congestion that led coal and oil-fired power generation to run more. The shortages highlighted the need for a focus on infrastructure development alongside resource development."

The Goldman Sachs report estimated that 85% of net US production growth will come from the Marcellus and Utica from 2014 to 2018. Connecting the Marcellus and Utica to New England is moving slowly, and the report encouraged policy and market design adjustments to make sure gas reaches the region. The report states that it will take over $20 billion of investment to reverse pipelines and build new pipelines from Appalachia to support substantial changes in gas flows for supply to meet demand. The drive towards exporting LNG may cut against the long term stable domestic pricing necessary to support this investment. It will take a national energy debate to sort through these issues. With the growing chaos in the Middle East, what better time than now.

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